

NTUMUN 2021

# STUDY GUIDE



ILO



NTU

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2021

# INTERNATIONAL LABOUR ORGANIZATION

## CHAIR INTRODUCTIONS

ANGAD SINGH

(HEAD CHAIR OF ILO)

Greetings to all delegates and representatives, I would like to take this opportunity to welcome you all to NTUMUN'21. To introduce myself I am a hospitality graduate from IHM, New Delhi and a hotelier by profession. My history with MUN's goes back about 9 years now, having attended over 100 conferences as a delegate, member of the executive board, secretariat or an advisor. MUN's have been a fairly integral part of me growing as an individual and I have been helped by my chairs to become confident and gain insight on workings of the global diaspora. I am to serve as an adjudicator for you guys but I shall also attempt to share my limited share of knowledge with you guys to make this a more enriching experience for you as delegates. Although I come with no expectations, I come with hope for a fruitful debate and deliberations that help us create plausible resolutions for the agendas at hand. We as executive board members shall provide a platform to welcome all forms of dissent by you with a fair ruling and transparent marking procedure. With this I wish you luck for the conference, see you there!

KIRANDEESH KAUR

(ASSISTANT CHAIR OF ILO)

Hey everyone! I am Kirandeesh. I am currently pursuing biochemistry and molecular biology from the USA. I have done a couple of MUNs in the capacity of secretariat, executive board and delegate and I like doing MUNs because I get to hear actual viewpoints over issues that seek recognition. Apart from this, I like to read and play with my cats in my freetime. At NTUMUN, I expect substantive debate over issues that plague the world currently and such resolutions which if implemented can change the course of functioning for the better. Goodluck to all and see you super soon!

(ASSISTANT CHAIR OF ILO)

In my capacity as Assistant Chair, I welcome all delegates to the International Labor Organization (ILO) at NTUMUN, 2021. I have recently completed a Master's in Economics from the University of Warwick. I started exploring Model United Nations as a result of my interests in International Relations and Global Political Economy. So far, I have been a part of more than 20 diverse conferences held in countries like India, UK, Belgium, Germany, Portugal, and Spain as a delegate, chair, and member of the secretariat. Given my intrigue and research in Development Economics, I am even more excited to co-chair the ILO at NTUMUN 2021, and discuss the socio-economic effects of a global pandemic and design a plausible recovery framework for it. As members of the Executive Board, we will work hard to keep the committee run smoothly, as well as do our best to help you understand the parliamentary procedure and ensure that the views of all delegates are heard and respected.

(ASSISTANT CHAIR OF ILO)

Hi everyone, my name's Hillary. I entered my local circuit in 2016 and now it has been 5 years since I started. You might envisage a consistently confident speaker, but what is really true is that I used to be a timid 14-year old girl. I was afraid to speak up and passively watched the seasoned delegates dominate the council. Then I started learning the dynamics of a council and how to take the prize. Apart from Model UN, I also enjoy dancing to different genres such as urban, contemporary and hip hop. I also used to be in my school's Taekwondo team. On an usual day, you will probably catch me playing a k-indie playlist and getting some work done, or possibly spending a whole day on Netflix. In regards to ILO, I hope delegates would be able to leave the conference with both tangible and intangible takeaways, and I look forward to seeing you soon.

## WELCOME LETTER

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Dear Delegates of NTUMUN'21 ILO,

We cannot be more elated and proud to have you with us for the fifteenth edition of NTUMUN 2021! We assure you that you have made the right choice to become a delegate of this committee.

In a MUN, your task is to impersonate a diplomat of the assigned State, present the perspective of this State's current government on the two topics, and cooperate with other Delegates to produce a resolution document together. You have chosen to participate in the simulation of the International Labour Organization, and thus to debate (1) Restructuring of Global Supply Chains in the wake of COVID-19 and (2) Informal Economies. The topics might seem rather technical and complex to some delegates however we do encourage you to read widely. The study guide is an introduction to our topics, providing a firm foundation for you to then research in greater detail. It will serve you in the writing of your position paper, defining your country's position on the matter.

At ILO, we hope that each delegate will work collaboratively and put out innovative resolutions. The conversations we will have will mimic those happening during sessions of the United Nations, one in which real diplomats have yet to come up with an acceptable solution. There are no wrong ideas and creative thinking is encouraged. That being said, we hope you have lots of fun and manage to take away something new from your experience at NTUMUN 2021.

Please contact us in case of any doubts, questions and curiosities. We are truly looking forward to hearing from you and meeting you online!

Yours Sincerely,

Chairs of ILO

# INTERNATIONAL LABOUR ORGANIZATION

## INTRODUCTION TO COUNCIL



### HISTORY OF THE INTERNATIONAL LABOUR ORGANISATION

The International Labour Organisation (ILO) was founded in 1919, as part of the Treaty of Versailles after World War I. The organisation was drafted by the Labour organisation and started off with representatives from nine countries: Belgium, Cuba, Czechoslovakia, France, Italy, Japan, Poland, the United Kingdom and the United States. The founders of the ILO recognized that it was important to ensure social justice in securing peace. The most important forces that were taken into account when the ILO was founded were security, humanitarian, political and economic considerations. These were important in post-war times when a lot of countries were undergoing industrialization, and more prevalently, forming economic interdependence. These pillars are very clear in the ILO constitution preambles.

1. Whereas universal and lasting peace can be established only if it is based upon social justice;
2. Whereas conditions of labour exist involving such injustice, hardship and privation to large numbers of people as to produce unrest so great that the peace and harmony of the world are imperilled; and an improvement of those conditions is urgently required;
3. Whereas also the failure of any nation to adopt humane conditions of labour is an obstacle in the way of other nations which desire to improve the conditions in their own countries.

The areas of improvement listed in the Preamble remain relevant today, including the regulation of working time and labour supply, the prevention of unemployment and the provision of an adequate living wage, social protection of workers, children, young persons and women. The Preamble also recognizes a number of key principles which include equal remuneration for work of equal value and freedom of association, and highlights, among others, the importance of vocational and technical education.

In 1920 the ILO moved to Geneva and in less than two years, nine International Labour conventions and 10 Recommendations were adopted in which standards were adopted regarding key issues such as hours of work, unemployment, maternity protection, night work for women, minimum age and night work for young persons.

## **HOW THE ILO WORKS**

ILO aims to achieve its goals through dialogue between the employers, workers and governments. Via these means policies and programs are agreed upon.

## **MAIN BODIES**

“The ILO accomplishes its work through three main bodies which comprise governments', employers' and workers' representatives:

1. The International labour Conference sets the International labour standards and the broad policies of the ILO. It meets annually in Geneva. Often called an international parliament of labour, the Conference is also a forum for discussion of key social and labour questions.
2. The Governing body is the executive council of the ILO. It meets three times a year in Geneva. It takes decisions on ILO policy and establishes the programme and the budget, which it then submits to the International Labour Conference for adoption.
3. The International Labour Office is the permanent secretariat of the International Labour Organization. It is the focal point for International Labour Organization's overall activities, which it prepares under the scrutiny of the Governing Body and under the leadership of the Director-General.

## **SUPERVISION**

Supervising member states is accomplished via two mechanisms:

- Member states must produce annual reports on the measures taken to implement conventions they have ratified. These reports are then examined by the ILO.
- Complaint procedures that affected parties (other member states, employers' and workers' organisations) may initiate.

In cases where standards are not implemented sufficiently the ILO assists the countries via dialogue and technical assistance.



## DEVELOPMENT COOPERATION

The ILO provides countries with technical cooperation to implement projects that fulfil the goals of the ILO. Priorities are placed on:

1. Networking to create partnerships between various parties, such as between private and public entities,
2. Mobilizing and coordinating funding,
3. Ensuring transparency.

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# TOPIC 1:

## RESTRUCTURING OF GLOBAL SUPPLY CHAINS IN THE WAKE OF COVID-19

### SUMMARY

The study guide shall entail several aspects related to the agenda and can be used as the basis for further research. It has been divided into clear sections which shall make it easier for the delegates to reference and understand how to go on about research. The first agenda talks about how global and local supply chains were and are disrupted

owing to the ongoing COVID-19 pandemic. It discusses in detail various aspects of the agenda such as tax policies, supply chain hindrances, restructuring and adding resilience to supply chains, the sectors which have suffered the most and how labor across the world has been affected by the same.

### INTRODUCTION

The COVID-19 pandemic has changed the business environment for many organizations around the globe, and has highlighted the importance of being able to react, adapt and set up crisis management mechanisms in order to weather situations of uncertainty. As the acute restrictions and lockdowns created many urgent situations that required immediate attention in the early days of the pandemic, many companies have now begun to move to a "recovery mode" and have started planning for the longer term. As

companies seek to strengthen operations and business resilience, the importance of supply chain resilience and risk management is more apparent than ever.<sup>1</sup>

Around the world, many companies are highly reliant on production and supplies in China, Southeast Asia and other low-cost jurisdictions. In recent years, broad global developments have forced these companies to rethink their

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<sup>1</sup> Mattias Hedwall, "The ongoing impact of COVID-19 on global supply chains" World Economic Forum, accessed January 15, 2021,

<https://www.weforum.org/agenda/2020/06/ongoing-impact-covid-19-global-supply-chains/>



supply chains and their stability and reliability for an uncertain future. This is not just in relation to COVID-19 but many other externalities and government actions throughout the world, which have begun impacting supply chains, such as the increased risk of trade wars, trends of nationalism and protectionism, issues of sustainability and human rights considerations.

The overall impact of the outbreak and the resulting emergency measures on international trade resulting from COVID-19 remain to be seen. However, companies have been faced with substantial business and operational disruptions, which has included everything from mitigating the effects of reduced supply, to managing disruptions to logistics suppliers, and indeed hurdles in meeting their own contractual obligations to customers.<sup>2</sup>

## BACKGROUND

The spread of the new coronavirus, COVID-19, is being felt globally across operations in ways that are difficult to model and assess. The affected regions are at the heart of many global supply chains. Hard information is lacking; concerns are mounting over depleting (or idling) stock; and companies fear they

won't meet contractual obligations on time. There are a lot of questions that need to be answered for us to successfully rebuild strong supply chain networks globally.

## TAX POLICY CONSEQUENCES ON SUPPLY CHAINS

As supply chain organizations maneuver in response to COVID-19 disruption, their assessments have laid bare vulnerabilities building for years. Economic nationalism, steadily accelerating since 2017, has eroded the pillars—tax policy among them—that anchored global supply chain models. In the "good old days," globalism bestowed the luxury of designing supply chains around low labor costs and reliable transportation. Little to no thought was given to tax and trade consequences, because there were few to speak of for

most businesses. All that has changed, seemingly all at once.

As protectionist tax and trade policies during the past few years began to stress supply chain operating models, they were noted with mild concern, but considered containable, like a rising body of water behind a dam. COVID-19 is the break in the dam—making the dangers of economic nationalism painfully visible to all and sending all parties scrambling for high ground. Many businesses are in crisis mode as

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<sup>2</sup> Mattias Hedwall, "The ongoing impact of COVID-19 on global supply chains" World Economic Forum, accessed January 15, 2021,

<https://www.weforum.org/agenda/2020/06/ongoing-impact-covid-19-global-supply-chains/>

they pivot to meet new customer demands and address short-term liquidity concerns.

Supply chain and tax executives have realized they will need to work together closely to return to former levels of profitability and strategize for long-term survival and resiliency. For the respective heads of supply chain and tax, the sometimes charged rhetoric and zero-sum game, nation-versus-nation scramble for COVID-19 emergency resources is just a dramatic, condensed

confirmation of their gut premonitions: the big trade-related developments of the last four years—Brexit, the U.S.-China trade war, the Tax Cuts and Jobs Act of 2017—are leading indicators of similar developments to come. They are all the more reason to consider reshored operations in response to the new reality of “make where you sell and buy where you make”.

## TAX OPTIMIZATION

As a strategic priority and organizational competency, tax optimized supply chain analysis is rooted in an increasingly critical imperative of value preservation and in a parallel questioning of supply chain models founded on the basis of lowest cost and operational efficiency. COVID-19 disruption has given fresh urgency to the adoption of multidimensional value frameworks—more firmly incorporating risk exposure, supply alternatives, channel complexity, and tax considerations—as the new measuring stick of supply chain health.

During the past several years, governments have increasingly turned to tax and trade policy to promote domestic industry, create new jobs, and incentivize investment inflows. The levers they use include not only the most commonly recognized categories of tariffs and income tax but also targeted indirect taxes, export controls, and calibrated trade sanctions. Major trading nations are now competing openly through unilateral tax policies to further either proactive or defensive aims.

As one example, the U.S. tax code was amended in 2017 to allow American businesses to repatriate cash trapped overseas on the premise the capital would incentivize U.S. companies to invest domestically. In 2019, France imposed its new digital services tax—a 3 percent tax on the gross receipts of approximately 30 multinational digital-services providers. The tax was justified on the basis that these companies were not paying their “fair share” of tax in France. Analysis showed 17 U.S.-based entities, but only one French entity, would be affected by the new tax. Those tax measures are overt, but the unilateral measures have also shown up in subtler forms. The United States’ refusal to appoint arbitrators to the WTO has effectively crippled WTO’s ability to resolve disputes and, as important, signaled that the U.S. is turning away from multilateral globalism and moving toward bilateral tax and trade agreements.

The three pressuring tax optimization agendas:

1. Firstly, how can tax be leveraged to free up cash in order to both keep the business afloat and pay for rapid reconfigurations of their supply chain networks?
2. Secondly, what tax value levers are available to our business to form supply chain restructuring analysis, so that it reflects current reality and anticipates the post-pandemic tax climate

3. Thirdly, what would “good” look like, if we aimed to embed long-term tax planning and strategy best practice into our supply chain restructuring analyses?

What needs to be answered is how trade policy can be used as a tool in order to restructure supply chains more efficiently in order to deal with demand and create a platform for redeemable trade practices by governments.

## NEED FOR RESILIENCE IN GLOBAL SUPPLY CHAINS

After decades of refinement, it seemed that global companies had gotten supply chain management down to a science. By orchestrating complex, international networks of suppliers, factories, and logistics providers, companies had been able to squeeze out cost, get goods to distant markets with remarkable efficiency, and keep inventory to a minimum.

Companies had already begun rethinking their far flung supply chains in response to changing labor costs, advances in automation, rising protectionism, and external shocks, such as natural disasters. But it took the COVID-19 pandemic to more fully expose flaws that have prompted organizations to fundamentally reassess their approach to global manufacturing and sourcing. Factory lockdowns, transportation disruptions, and panic buying led to shortages of everything from medical supplies and household necessities to critical automotive and electronics

components. The crisis also heightened geopolitical tensions, trade restrictions, and nationalist policies aimed at promoting domestic industry that are likely to continue reshaping the global business landscape.

Now, companies are exploring various ways (like reducing redundancy, building flexibility, identifying vulnerabilities) to build more resilience into their manufacturing and supply networks—even if that resilience leads to extra costs. With massive value at stake, global enterprises are seeking to mitigate risk and secure better access to supplies and markets. They are exploring options for diversifying and regionalizing their manufacturing and supply networks, adding backup production and distribution capacity, and reoptimizing inventory. Companies are also seeking to improve their supply chain flexibility, risk-monitoring capabilities, and capacity to respond rapidly to new shocks.

## SCOPE OF DEBATE

### SECTORS WHICH WILL BE MOST VULNERABLE

These pressures will not affect all industrial sectors equally. In some segments of the biopharmaceutical and medical device and equipment sectors, for example, changes in supply chains may be needed if governments mandate local production in the wake of COVID-19. In many other sectors, adjustments will require balancing a number of tradeoffs.

In other industries in which countries depend heavily on imports, supply chains are less likely to see major changes

because the impetus to change is low, even if the ease of adjustment is favorable. The US imports most of its luxury goods and apparel from the EU and Asia, for example. But governments do not regard these sectors as strategically important, and overconcentration is not a major risk because supply chains are fairly simple and there are many potential source countries for products.

### CHANGES IN THE SOURCING LANDSCAPE

Many of today's worldwide supply chains were developed during the high tide of globalization from the late 1980s through the first decade of the 2000s, when falling trade barriers and transportation costs removed friction in international commerce. Traditionally, supply chains were designed primarily to meet two overarching objectives: cost efficiency and optimal service levels. Manufacturing footprints and sourcing networks have been built largely to take advantage of differences around the world in factor costs—such as labor, materials, and energy—and on the ability to fulfill customer needs within a particular time and at a specified quality standard in given markets. Over the past few years, concerns over market access, resilience, and environmental

sustainability have gained in importance in some sectors. The trade war between the US and China accelerated shifts in procurement. Trade between the two economies dropped by 16% in 2019. US auto-part imports from China fell by 17%, but rose by 10% from Turkey and 24% from Southeast Asia. And while US imports of consumer durables from China shrank by 19%, they increased sharply from Japan, South Korea, India, Brazil, and Southeast Asia. Samsung moved smartphone manufacturing from China to India and Vietnam, for example, while LG Electronics shifted refrigerator production for the US market to South Korea.

## REPURPOSING AND REFORMS

The pandemic also illustrates the central role that well-functioning supply chains play in society. Nowhere is this more evident than in healthcare, where supply chain disruption and a sudden and massive rise in demand have created critical shortages of products like personal protective equipment.

This is why countries should look to repurpose their supply chains to increase both resilience and responsibility. This includes ensuring core business values guide supply chain decisions, reshaping the whole supply chain for the future around the needs of the business, of shareholders, and of society.

### Preserve the extended workforce

We are all relying on the extended supply chain workforce (contractors, freelancers, and contingent labor), as well as suppliers, partners and ecosystems, to show exceptional

resilience through these difficult times. COVID-19 has put workers in an unfamiliar, fast-changing, and often highly stressful environment. To support human resilience, what people need now is to trust that their leaders have a plan to support them, stay well and stay productive.

### Secure the supply base

COVID-19 starkly illustrates the need for all companies to consider the future security of the supply base, harnessing the relationships they've built with suppliers of all sizes – small, medium and large. COVID-19 calls for a deeper understanding of both known and unknown risks to the supply base, including taking precautionary measures in support of small and medium-sized businesses and local ecosystems. It also amplifies the importance of predictive modelling and applied intelligence.

## APPLICATION OF TECHNOLOGY AND DIGITIZATION

In order to better address the impact on supply chains, developments in technology and sustainability should be considered as well. As per a report by the World Economic Forum, the pandemic has shown different ways to business organizations to function remotely and communicate effectively.<sup>3</sup> Therefore, operations with stronger digital

infrastructure should be promoted. Additionally, there have been multiple advances in Artificial Intelligence and new technologies that present opportunities for future supply chain innovation. Moreover, the report suggests that other factors such as improving labor rights, better environmental practices to promote

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<sup>3</sup> Alex Capri, "How COVID-19 accelerated the shift towards TradeTech" World Economic Forum, accessed January 15, 2021, <https://www.weforum.org/agenda/2021/01/how-covid-19-has-accelerated-the-shift-towards-tradetech/>

sustainability, and creation of an inclusive economic environment should be incorporated.

The pandemic has uncovered several weaknesses in corporate strategies and this became evident with the delay of essential supplies. The resulting long-run needs include digitization in the supply chains to enhance real-time visibility into product attributes. The United States-Mexico-Canada Agreement (USCMA) presented an opportunity to restructure global supply chains including the traceability and transparency of goods.<sup>4</sup>

As per an advisory report by KPMG, it has become imperative to create data trails using capabilities like AI and Blockchain so as to improve consumer confidence.<sup>5</sup> Furthermore, the implementation of emerging technologies can provide more clarity and trust in the supply chain process by revealing the safety of goods. The effects of Climate Change should also be considered so as to minimize the carbon emissions produced through freight and shipping of goods. Therefore, mechanisms that are devised for carbon accounting and calculation of emissions throughout the supply chain need to be discussed.

## KEY STAKEHOLDERS

### WORKERS

The spread of Coronavirus disease 2019 (COVID-19) has caused several restrictions on travel and in-person activities. It has been estimated that around 450 million people working in global supply chains face reduced income or job loss as a result of the

pandemic.<sup>6</sup> As per subsequent research, it has been found that the duration of lockdowns placed by national governments has had a more severe impact on the global supply chains than the strictness of the lockdown itself.<sup>7</sup> The most significant impact of these

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<sup>4</sup> Stephanie Trefcer, "COVID-19 accelerates supply chain digital transformation" KPMG, accessed January 15, 2021, <https://info.kpmg.us/news-perspectives/technology-innovation/covid-19-accelerates-supply-chain-digital-transformation.html>

<sup>5</sup> Stephanie Trefcer, "COVID-19 accelerates supply chain digital transformation" KPMG, accessed January 15, 2021, <https://info.kpmg.us/news-perspectives/technology-innovation/covid-19-accelerates-supply-chain-digital-transformation.html>

<sup>6</sup> Juliane Kippenberg, "COVID-19 Puts Millions of Global Supply Chain Workers at Risk" Human Rights Watch, accessed January 15, 2021, <https://www.hrw.org/news/2020/04/02/covid-19-puts-millions-global-supply-chain-workers-risk>

<sup>7</sup> Gil Loewenthal, "COVID-19 pandemic-related lockdown: response time is more important than its strictness

, *EMBO Molecular Medicine* 12, accessed January 15, 2021, <https://www.embopress.org/doi/full/10.15252/emmm.202013171>



lockdowns has been found on an important component of supply chains, workers.

Migrant workers, in particular, are one of the most vulnerable groups that have been affected. These disruptions have been seen in the mining sector in Latin America as well as the electronics manufacturing sector in Asia, Europe, and Latin America.<sup>8</sup> Specifically, the workers involved in the electronics sector have faced loss of working hours and daily wages, job loss and severance pay leading to their inability to cover basic needs. Furthermore, workers involved in electronics manufacturing and female workers in the agricultural and garments sectors have faced severe health and safety risks, stress, and subsequent economic concerns.<sup>9</sup> The findings of BSI's quarterly review and outlook suggested that negative impact on global economies has led to exploitation of vulnerable migrants who have been stranded in detention centres due to mobility restrictions and lockdowns.<sup>10</sup>

Comprising a large working-age population and limited domestic employment opportunities, South Asian

is a significant source of migrant labour. Over thirty countries in the world get more than 10 percent of their GDP from remittances. This money sent home by around one billion workers overseas or internally to their families is collectively higher than either foreign direct investment or official development assistance. The World Bank estimated a drop of 20% in remittances in 2020. South Asia is the second highest region to receive remittances in the world (ILO 20/09/2018) and this money plays an important role in poverty reduction and maintaining a minimum standard of living. Due to restrictions on movement, families mostly situated in South Asia and Latin America that rely on foreign remittances have been heavily impacted.<sup>11</sup>

In addition to overseas migrants, there is a significant amount of rural to urban migration for work within countries. In India, millions of migrant workers are predicted to be unemployed due to the lockdowns and economic downturn. The risk posed to rural urban migrants is highest among those involved in contract based work and in the unorganized sector.

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<sup>8</sup> James Lewry, "COVID-19: The impact on workers in global supply chains" Control Risks, accessed January 15, 2021, <https://www.controlrisks.com/covid-19/the-impact-on-workers-in-global-supply-chains>

<sup>9</sup> "Impacts of COVID-19 on supply chain workers in the electronics sector" Business Human Rights, accessed January 15, 2021, <https://www.business-humanrights.org/en/latest-news/impacts-of-covid-19-on-supply-chain-workers-in-the-electronics-sector/>

<sup>10</sup> Seema Jalan, "WHAT COVID-19 MEANS FOR WOMEN IN GLOBAL SUPPLY CHAINS — AND HOW COMPANIES CAN TAKE ACTION" UN Foundation, accessed January 15, 2021, <https://unfoundation.org/blog/post/what-covid-19-means-for-women-in-global-supply-chains-and-how-companies-can-take-action/>

<sup>11</sup> Mamadou Kaba SQUARE, "Recovering from the COVID-19 crisis: What policies are needed?" International Labour Organization (ILO), accessed January 15, 2021, [https://www.ilo.org/actrav/media-center/news/WCMS\\_746322/lang--en/index.htm](https://www.ilo.org/actrav/media-center/news/WCMS_746322/lang--en/index.htm)

As containment measures were placed in order to curb the pandemic, the freedom and ability of migrants to travel and work as well as enable them to return to their homes has been disrupted significantly. Due to labour movement limitations, a plausible economic problem that has also emerged is that of labour shortages in certain areas.<sup>12</sup> Furthermore, the stigmatization of migrant workers that have returned to their home areas, limited access to social assistance or protection measures, and the long-term mental and physical effects have been some important issues that must be tackled.<sup>13</sup> These issues further the humanitarian concerns for a vulnerable group that has been difficult to assess due to lack of reliable data.

Apart from these key sectors, businesses in other industries have also not adhered to their labor and human rights commitments. Due to globalization, a large number of businesses are well connected across transnational borders. The policies of these large companies impacts those working at the bottom of these supply chains.<sup>14</sup> This has created a dire need for business to engage with

suppliers to minimize the impact on vulnerable daily wage workers. As estimated by the International Labor Organization, 25 million jobs could be lost amidst the pandemic and has warned that low paid and less protected workers are most affected. This has also been reiterated by the Council of Global Unions as they have warned that workers are most prone to face the economic, social, and health repercussions of the pandemic. Additionally, the economic consequences in countries like Bangladesh, Myanmar, and across Central America have been more severe. As European retailers have cancelled approximately USD 1.5 billion of orders from Bangladesh alone, several garment factories have faced closures leading to numerous workers losing contracts.<sup>15</sup>

In terms of health too, the risks have been highly unequal. According to Building and Wood Workers' International, migrant workers that are not given proper protection and regulation and are employed in zero-hour contracts have been facing a higher risk of infection compared to others.<sup>16</sup>

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<sup>12</sup> Juliane Kippenberg, "COVID-19 Puts Millions of Global Supply Chain Workers at Risk" Human Rights Watch, accessed January 15, 2021, <https://www.hrw.org/news/2020/04/02/covid-19-puts-millions-global-supply-chain-workers-risk>

<sup>13</sup> Martin Chulov, "Migrant workers bear brunt of coronavirus pandemic in Gulf" The Guardian, accessed January 15, 2021, <https://www.theguardian.com/world/2020/apr/19/migrant-workers-bear-brunt-of-coronavirus-pandemic-in-gulf>

<sup>14</sup> "Migrant workers and the COVID-19 pandemic" Food and Agriculture Organization (FAO), accessed

January 15, 2021, <http://www.fao.org/3/ca8559en/CA8559EN.pdf>

<sup>15</sup> Arun Devnath, "European Retailers Scrap \$1.5 Billion of Bangladesh Orders" Bloomberg, accessed January 15, 2021, <https://www.bloomberg.com/news/articles/2020-03-23/europe-retailers-cancel-1-billion-of-bangladesh-garment-orders>

<sup>16</sup> Mamadou Kaba SQUARE, "Recovering from the COVID-19 crisis: What policies are needed?" International Labour Organization (ILO), accessed January 15, 2021,

Several groups have focused on the wealthy Gulf states, where migrant labour makes up half or more of the population. Across the Gulf states, migrant workers account for high proportions of Covid-19 infections. In order to curb inherent inequalities, the Geneva Council for Rights and Liberties has called for greater protection mechanisms to be established for migrants.<sup>17</sup> Apart from international organizations, a few companies have devised policies to protect their labour.

For instance, suppliers and textile workers unions in South Africa have agreed on a national collective bargaining agreement paying workers for six weeks during lockdown. On the other hand, producers in Myanmar, Cambodia, and Bangladesh have suspended work without paying their existing workers for previously completed work.<sup>18</sup>

## FOOD SUPPLY CHAINS

COVID-19 has imposed shocks on various components of food supply chains affecting farm production, food processing, transport and logistics, and final demand. It has been predicted that people from around 25 nations will be facing the burden and brunt of the pandemic, particularly in terms of hunger. As per analysis and studies compiled by the WFP and the Food and Agriculture Organization (FAO), low-income and middle-income countries in

Latin America, Africa, and parts of Asia will face the long-term consequences.<sup>19</sup>

As per a report by the Consultative Group for International Agricultural Research (CGIAR), hunger already affects more than 820 million people, and this is expected to be further exacerbated by the ongoing pandemic.<sup>20</sup> Furthermore, the report provides a potent economic channel for this effect. The crisis has severely damaged food supply chains,

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[https://www.ilo.org/actrav/media-center/news/WCMS\\_746322/lang--en/index.htm](https://www.ilo.org/actrav/media-center/news/WCMS_746322/lang--en/index.htm)

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<sup>17</sup> Martin Chulov, "Migrant workers bear brunt of coronavirus pandemic in Gulf" The Guardian, accessed January 15, 2021, <https://www.theguardian.com/world/2020/apr/19/migrant-workers-bear-brunt-of-coronavirus-pandemic-in-gulf>

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<sup>19</sup> "COVID-19 Brief: Impact on Food Security", USGLC, accessed January 15, 2021, <https://www.usglc.org/>

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and countries with strong agricultural dependency such as Kenya, Mali, and Sierra Leone are expected to be primarily affected. It is important to understand that instant lockdowns to prevent the spread of the virus caused disruptions in trade leading to a supply shortage.

Previous food crises in 2007-08 and 2010-12 had dire repercussions by stimulating food riots and political unrest. The FAO monitored the possible reasons for the crises from 2007 to 2011, and concluded that restrictions on trade and exports acted as important factors.<sup>21</sup> In response to this, the IFPRI has predicted that similar concerns persist in 2020. Earlier in the year, they anticipated a rise in prices for agricultural commodities, mostly affecting Sub-Saharan Africa. Furthermore, the WTO, FAO, and WHO issued a joint statement urging individual governments to open channels of food production and stressed the relevance of food security. On April 21, Group of 20 (G20) countries also stressed the importance of price volatility and easing market restrictions to maintain food security in the times of a critical health crisis.<sup>22</sup>

Several organizations have highlighted the similarities between the ongoing crisis and the 2014 Ebola outbreak. During the Ebola outbreak in 2014, rice prices in Guinea and Sierra Leone increased by more than 30%. Simultaneously, an increase was

recorded in the prices of staples like Cassava, by almost 150%. Similarly, as consequences of the COVID-19 pandemic unfolded, supply chains and price rise is being seen as a major driver of food insecurity and malnutrition.<sup>23</sup>

1. **Farm Production:** Farm production is affected by multiple bottlenecks such as labour. Mobility restrictions have led to shortages of seasonal workers for planting and harvesting in the fruits and vegetables sector. In addition to labour, there have been shortages of other inputs such as seeds, pesticides, fertilisers, and energy. For instance, with China being the largest supplier of pesticides, there were disruptions as trade and movement restrictions were placed.
2. **Food Processing Industries:** Social distancing rules caused heavy disruptions in the food processing industry. In countries such as France with a dominant meat processing industry, reduction in staff availability led to inefficient food production. Moreover, in some countries, it is more difficult to maintain physical distance in sites that increase infection risks. The impact, however, is different for meat processing industries which are more labour intensive and

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<sup>21</sup> "COVID-19 Brief: Impact on Food Security", USGLC, accessed January 15, 2021, <https://www.usglc.org/>

<sup>22</sup> "The Impact of COVID-19 on Critical Global Food Supply Chains and Food Security", SIPRI, accessed January 15, 2021, [https://www.sipri.org/commentary/topical-](https://www.sipri.org/commentary/topical-background/2020/impact-covid-19-critical-global-food-supply-chains-and-food-security)

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other sectors like grain handling & processing.

3. **Transportation:** The food supply chains have also been affected by transportation and logistics bottlenecks. Broadly, the modes of transport used include bulk (ships and barges); containers (by boat, rail or truck) and other road transport; and air freight. Whilst the impact of COVID-19 has varied across these different modes, it is estimated to be quite significant particularly for air shipments. These logistical constraints have been the maximum for perishable goods such as fruits and vegetables thereby affecting the costs of production.
4. **Consumer Demand:** An important implication of the pandemic has been on the final demand for food related products. Specifically, the period noted a shift from consumption at restaurants to homes. This created a need to reevaluate the food supply chains that have largely been dependent on service-based industries.<sup>24</sup>

A noted problem of COVID-19 for food supply chains is that it has less of an impact on primary production, but rather on the complex web of different components that creates a sudden change in the demand. The disruptions in processing have disconnected supply and demand, creating simultaneous surpluses for suppliers and shortages for consumers.<sup>25</sup>

Due to movement restrictions, changes in demand, closure of food production facilities, and other financial pressures in the supply chains, policies should be devised to minimize the impact on food security. It is important to consider the skewed impact on workers, small farmers, and other vulnerable groups involved in production. Organizations have also advised on improving health and safety conditions of employees and prevention of rise in food prices. Furthermore, it has to be ensured that the supply chain is flexible enough to respond to such challenges and bottlenecks, and that the impact of the pandemic on agriculture is better evaluated.

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<sup>24</sup> "Food Supply Chains and COVID-19: Impacts and Policy Lessons", OECD Policy Responses to Coronavirus (COVID-19), accessed January 15, 2021, <http://www.oecd.org/coronavirus/policy-responses/food-supply-chains-and-covid-19-impacts-and-policy-lessons-71b57aea/>

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## QUESTIONS A RESOLUTION MUST ANSWER

1. What fiscal policies should be adopted by nation states to ease challenges in local supply chains?
2. How can governments devise protection mechanisms for migrant workers?
3. Can alternate trade and taxation policies be adopted to address the problems in global supply chains?
4. How can labour markets be regulated during movement restrictions and lockdowns?
5. What steps should be taken by international organizations to ensure minimal disruptions in supply chains of essential commodities?
6. How can private and public sector enterprises adopt new technologies to improve efficiency?

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# TOPIC 2: INFORMAL ECONOMIES

## SUMMARY

The study guide shall entail several aspects related to the agenda and can be used as the basis for further research. It has been divided into clear sections which shall make it easier for the delegates to reference and understand how to go on about research. The second agenda for ILO talks about informal economies: how they work, what factors affect informal economies, the prospect of formalizing certain sectors of the informal economy and the threshold of informal economy and their importance in a country's productivity and GDP.

## INTRODUCTION

The committee will be discussing the process of formalizing informal economies against the backdrop of a global pandemic. This topic is of relevance today because of the recent re-convergence of global interest in the informal economy. This stems from the recognition that the informal economy is growing; this growth seems to be permanent and not just a short term phenomenon. It is extremely important to understand that a number of nations have a large share of their economies lying in the informal sector. Whilst the size of the global informal economy has not been measured exactly, there have been concerns regarding the losses caused by the existence of the informal sector. For these reasons, the informal economy should be viewed not as a marginal or peripheral sector but a basic component of the total economy. It is pertinent to note and discuss the causes, process, and final consequences of the process of creating an informal economy. The economic process of formalizing an informal economy will lead to both a well protected workforce and more efficient tax collection. Thus, it becomes imperative to take into consideration the process of formalizing the informal sector as well as the stakeholders most likely to be affected.

## BACKGROUND

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### AN INSIGHT INTO INFORMAL ECONOMY, INFORMAL SECTOR AND INFORMAL UNEMPLOYMENT BY THE ILO

In 2015, the ILO Recommendation described the informal economy as referring to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements (as aforementioned in the definition section which is the standard definition as per the ILO currently). **The informal economy does not cover illicit activities.** The activities may be classified as illegal but are not considered illicit by international law. In recent years, the ILO has also extended their focus to not only enterprises that are not legally regulated but also employment relationships that are not legally regulated or protected.

### CONNECTING INFORMAL ECONOMIES TO FORMALISATION AND RECOMMENDATIONS BY THE ILO

With respect to minimum wages, according to recently adopted [Transition from the Informal to the Formal Economy Recommendation, 2015 \(No. 204\)](#), ‘countries should progressively extend minimum wage protections, in law and in practice, to workers in the informal economy through the process of formalization’. This also needs to be implemented in those situations where minimum wages do not apply to some workers in the informal sectors and some informal sectors which are counted as formal.

### WHY REDUCE INFORMALITY?

Informal economies have to be formalised for various reasons. Recent research findings and official data has shown that there are significant gaps in earnings within the informal economy. As illustrated in Figure 1, on average, employers have the highest earnings; followed by their employees and other more “regular” informal wage workers; own account operators; “casual” informal wage workers; and industrial outworkers. Secondly, as also depicted in Figure 1, men tend to be over-represented in the top segment and women tend to be over-represented in the bottom segments.

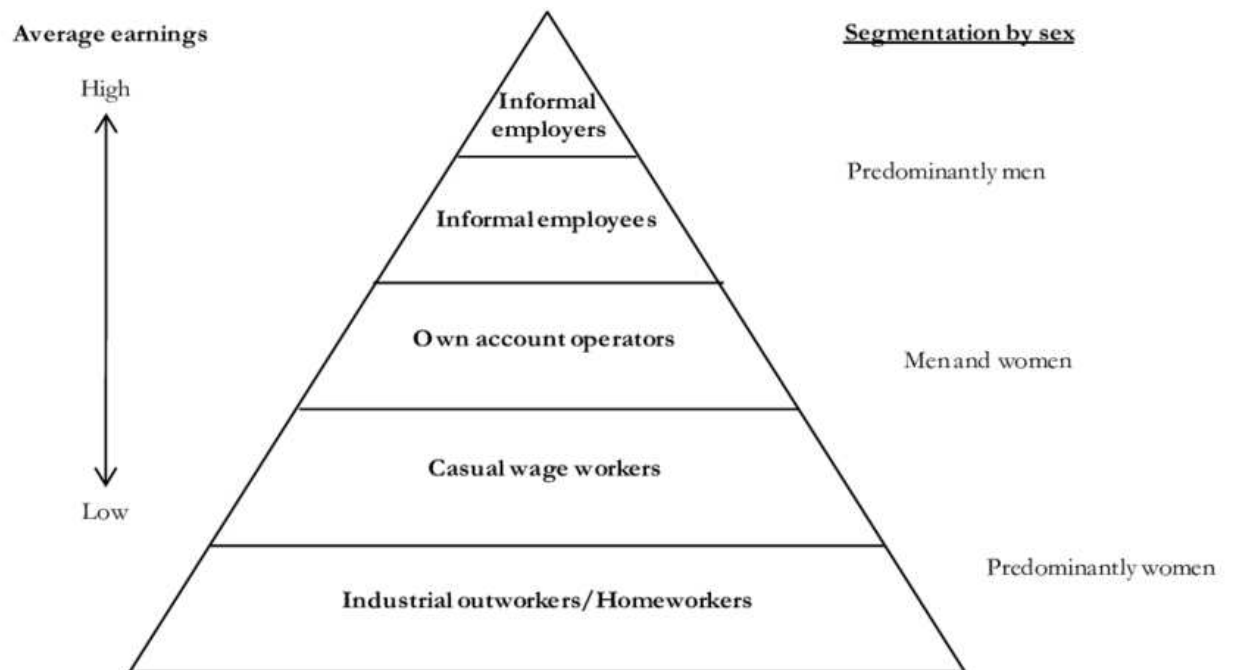


Figure 1: Segmentation of the Informal Economy

In the intermediate segments, the shares of men and women tend to vary across sectors and countries. The net result of this is a large gender gap in earnings in the informal economy, with women earning substantially less than men on average. It is also to be noted that there are further earning gaps and segmentation within these broad categories, with women typically earning less than men even within these specific segments of the informal economy. There are multiple contributing factors as to why these gender gaps exist. In certain secular societies such as North India and Pakistan, there is strong educational discrimination against girls, which often results in men embodying more human capital. Men also tend to work from better work sites/spaces and have greater access to productive assets and financial capital. More often than not, this results in men being able to produce or sell a higher volume or different range of goods and services. For example, if we look at street vendors in most countries, men are more likely to sell non-perishables whereas women are more likely to sell perishable goods such as fruits and vegetables. Reducing this gender gap created by the informal economy requires a broad strategy. This includes realising fundamental principles and rights at work, creating greater and better employment and income opportunities; extending social protection; and promoting social dialogue.

Ultimately, informality needs to be reduced to have better jobs, broader tax base that may allow lower rates, better information that may promote good deal-making, increased investment, and stronger social contract/rule of law

## FORMALISATION OF INFORMAL ECONOMIES: WHAT DOES IT MEAN?

Formalization of the informal economy can be defined in different aspects: registration, taxation, organization and representation, legal frameworks, social protection, business incentives/support, and more. Formalisation is different in every section of informal economy taken into consideration.

### 1. Formalization of Informal Enterprises

- Registration and Taxation: simplified registration procedures, progressive registration fees.
- Appropriate Legal and Regulatory frameworks: enforceable commercial contracts, private property rights, use of public space.
- Benefits of operating formally: access to significant marketing information, access to public utilities and services, enforceable commercial contracts, limited liability and more.

### 2. Formalization of Informal Jobs

- Professional acknowledgement as workers

Benefits of being formally employed: Occupational health and safety measures, Employer contributions to health and pensions, membership in formal trade unions and other benefits of being professionally employed.

## DEFINITIONS

1. **Informal Economy:** The informal economy is defined as a diversified set of economic activities, enterprises, jobs, and workers that are not regulated or under the discretion of the state. It also includes wage employment in unprotected jobs and is often named as “illegal”, “underground”, “black market” or “grey market”. However, it has not been labelled illicit by the ILO. The International Labour Organization released the first-ever estimates of the world's informal labour force in 2018: 61% of the world's workers earn their living in the informal economy. The informal workforce is – 2 billion workers worldwide – and it is significantly contributive. The informal economy possesses the ability of reducing poverty and inequality if considered from a different perspective and evaluated upon.



### BARRIERS, CHALLENGES AND RESPONSES TAKEN TO ESTABLISH FORMALISATION

I) **Regulatory barriers** are inappropriate requirements stemming from governments that do not appreciate the impact on firms (particularly smaller firms) of additional reporting, inspection and other compliance procedures. The time entrepreneurs require to maintain and grow their business is not valued. In recent years, poor law making has contributed as a barrier to formalisation of the informal sector.

II) **Administrative barriers** stem from the way regulations are enforced. In many countries, little effort has been made to raise awareness among public servants of the private sector's needs, nor to create a more service-oriented culture with respect to entrepreneurs (as opposed to a culture that sees its role as one of control and enforcement).

III) **Fees and financial requirements** consist of regressive fees that penalise smaller firms, overly complex tax regulations and poor tax and tariff administration. In a number of countries, initial business registration and licensing fees are set at too high a

level. Informal enterprises shy away from joining tax regimes for other reasons: they are worried about tax levels; they do not understand how to comply with tax requirements; they fear the behaviour of revenue officials; or they do not believe they will receive services in return for payment.

IV) **Corruption** is a major factor deterring formalisation, as businesses stay off registers and tax rolls in order to minimise contact with corrupt public officials. A study of 69 countries found a direct link between decreases in corruption and increases in the size of the formal economy. Corruption erodes the trust that businesses have in government and leads informal businesses to conclude that their long-term prospects in the formal economy are poor.

V) **Socio-cultural barriers**- In some countries, there is a degree of resistance to formalising because of socio-cultural obstacles. The informal economy comprises strong networks of trust and interdependence, often cemented by collective historical experience, e.g. Of oppression or social exclusion.

## KEY STAKEHOLDERS

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### HOMEWORKERS

Formalization for homeworkers can be done in the following ways: enforceable work orders, minimum wages, occupational health and safety measures, money to improve their workspace (often their home) and upgrade their equipment and environment , access to basic necessities like water, electricity and food through proper wage that ensures good health.

### AGRICULTURAL EXPORT WORKERS

Formalization for agricultural workers include permanent contracts, wage payments, higher wages and opportunities to shift to better-paid work within occupation.

### CONSTRUCTION WORKERS

Formalization for construction workers include higher wages, skills training: masonry, carpentry, and other construction skills as well as the implementation of safety regulations

## QUESTIONS A RESOLUTION MUST ANSWER

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1. How will governments establish funds to implement the process of formalization?
2. What will be the key challenges faced by nations during the process of formalization and what steps can be taken to minimize them?
3. How can nations address the issue of gender gaps in the informal economy?
4. How can international bodies ensure minimal job losses during the transition?
5. Which regulatory authorities should maintain accountability during the process?
6. Can a set of financial and non-financial incentives be employed by governments to motivate self-employed workers in the informal sector?

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